

THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Officers

NFAC #534-81
4 February 1981

NOTE TO: Director of Central Intelligence
VIA : Bruce C. Clarke, Jr.
Deputy Director, National Foreign Assessment
FROM : Robert M. Gates
National Intelligence Officer for USSR-EI
SUBJECT: Cabinet Meeting on Grain Embargo

Attached for your use at this morning's
Cabinet meeting is a distillation of the
points discussed in your office last night,
as requested. A copy of the Interagency
paper is also attached.


Robert M. Gates

Attachments: two
As Stated

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SUBJECT: Cabinet Meeting on Grain Embargo

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Lifting the Embargo

1. Political Considerations

- Should consider in context of larger arena of US-USSR relations.
- Is this conciliatory gesture the 1st signal the Administration wants to send Soviets?
- Gesture would seem inconsistent with recent statements by Pres/Secy of State. Could mislead Soviets as to Administration's longer range intentions vis-a-vis relations with USSR.
- Lifting would dismay Arabs, Pakistanis about US willingness to stick to policy course, and lead them to question US staying power for any measures against USSR (especially in response to aggression in third world.)
- Europeans would welcome lifting. Would not necessarily make it harder for US to get their agreement to sanctions if Poland invaded (State disagrees).
- If lifted, tougher to get sanctions if Soviets aggressive elsewhere in third world.
- If decided to lift:
 - timing. Wait until after Administration has taken actions setting tone and theme of more assertive US posture in US-USSR relations?
 - price. Give lifting to them for free? They clearly want the embargo lifted. Ought to make them pay price. Possibly use lifting to obtain much more favorable new 5 year grain agreement.

2. Economic Considerations

- By October 81 embargo will have cost Soviets nearly an additional \$1 billion (extra shipping costs, premium prices, flour substitutes).
- Has hurt Soviet consumer even though amount of grain denied not large. (Equivalent loss in meat production of nearly 650,000 tons - almost 4% of supply).

3. Point of Disagreement

- Disagree that keeping the embargo will force Soviets to reexamine their livestock production goals and move toward greater self-sufficiency (State background paper, p. 2 at clip). We believe that whether or not embargo is lifted, Soviets will not lessen their long term effort to raise livestock production. Also, will not alter effort to reduce dependence on free world food whether or not embargo lifted.

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DEPARTMENT OF STATE
BRIEFING PAPER

GRAINS EMBARGO AGAINST THE USSR

Overview Paper

*Paper for
Cabinet
Consideration
4 Feb,*

ISSUE FOR DECISION

The Administration is to decide upon the future of the embargo on grains and other agricultural exports to the USSR. The context in which the embargo decision is to be taken includes the following constellations of factors:

- the President's criticism of the embargo decision and his commitment to an early reexamination of the policy with a view to its reversal;
- the impact on and attitude of the US farm sector;
- the attitude of the US industrial community;
- the US, Soviet and global grain situation;
- the overall US/Soviet relationship including the response to the occupation of Afghanistan;
- the US relationship with Pakistan and other countries in Southwest Asia;
- the continuing threat of Soviet intervention in Poland;
- the status and prospects of cooperation by our European Allies, Australia and Canada.

KEY JUDGEMENTS

-- Lifting the embargo would have little immediate economic impact. Soviet grain imports might rise from 34 to 36 million tons this year. US soybean and meat exports to the USSR would increase significantly; global US grain exports would rise only about 2 million tons.

-- In the longer term continuation of the embargo could have a greater economic effect. The Soviets could revise their policy to limit grain dependence on the US.

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-- The decision has great political importance, both to US domestic interests and to the USSR. The US farm community would greatly welcome lifting the embargo as an affirmation of a freer trade policy; the Soviets would draw negative conclusions about our resolve regarding Afghanistan, Poland and the overall superpower relationship.

-- The decision is integrally related to the future of the US-Soviet grain relationship, now covered by the US-USSR Long-Term Grains Agreement (LTA), which expires September 30, 1981 unless extended or renegotiated.

- The grains embargo was imposed as part of a sanctions package which also affected non-agricultural products. In addition to the decision on grains, a decision will be necessary on other parts of the package, particularly phosphates.

Whatever the decision, we should consult with the other major exporting countries before either informing the Soviets or making any public announcement. We should also consult with Congressional leaders, particularly if we decide not to lift the embargo.

OPTIONS

The options outlined are not intended to be all-inclusive. There are a number of possible variants. However, the three options below define the basic framework for decision.

1. The President would revoke the executive order imposing restrictions on agricultural exports to the USSR. Non-grain agricultural exports would be decontrolled. Additional grain exports in the current year above 8 MMT would be permitted in bilateral consultations under the LTA. We would promptly work out a package to get the most we could from the Soviets in return for lifting the embargo. (The decision would need to be held closely to enable us to obtain concessions.)

Pro

-- It would satisfy expectations created by the President's criticism of the embargo.

-- It would help US farmers and traders without benefiting the USSR greatly in the short-term.

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-- It would permit the US to wind down Allied embargo cooperation before it collapses.

Con

-- It would signal to the Allies, Soviets and Islamic world the end of the US reaction to the Afghanistan invasion.

-- It would sharply increase the difficulty of mounting a vigorous Allied response to Soviet intervention in Poland.

-- It would reduce US leverage in subsequent renegotiation of the LTA.

-- It would raise pressures to relax other restrictions on US-Soviet trade.

2. We would decide to terminate the embargo subject to satisfactory arrangements governing US-Soviet grain trade beyond the September 30 expiration date of the LTA. The question of additional Soviet access to US grain in the current agreement year would be addressed in the negotiations.

Pro

-- It would move a long way toward satisfying expectations created by the President's criticism of the embargo and providing benefits to the farm sector.

-- At little or no cost in foregone additional grain exports, we retain leverage in negotiating the framework for future trade.

Con

-- It would signal to the Allies, Soviets and Islamic world the end of the US reaction on Afghanistan.

-- Although it gives us a little time for clarification of the Polish situation, there would be heavy domestic pressure to conclude negotiations quickly. Once the negotiations were concluded, our ability to deter Soviet action in Poland would be reduced. It would be difficult and disruptive to reimpose restraints suddenly.

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3. We would delay the decision until later in the spring for further review in light of the US agricultural situation, the threat to Poland, the assessment of long-term US objectives toward the USSR and possible linkage to non-agricultural issues.

Pro

-- It would avoid an early retreat from our position on Afghanistan.

-- It would put the USSR on notice that normalization of economic relations is linked to Soviet restraint on Poland.

-- It would provide time to develop our long-term strategy toward the USSR.

-- Delay would result in little difference in total US grain exports during the remainder of the 1980/81 crop year.

Con

-- It would disappoint the farm sector.

-- It would continue a policy of trade restraints having only marginal economic impact on the USSR.

-- It would risk further erosion of Allied adherence to the principle of restraint on trade with the USSR.

-- If no decision is taken, the embargo becomes a Reagan administration policy.

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BACKGROUND PAPER ON THE GRAIN EMBARGO

The partial grain embargo was imposed in January 1980 as the centerpiece of a sanctions package designed to impose significant costs on the USSR in retaliation for its invasion of Afghanistan. Other elements in the package included an embargo on the sale of other agricultural products which contribute to the feed and livestock sector, tightened restrictions on high-technology trade, an effort to limit Allied extension of official export credits, and the Olympic boycott.

IMPACT ON USSR

The partial grain embargo worked fairly well in its first year, denying the Soviets 8-9 million metric tons (MMT) of the 36 MMT they had planned to import in the October 1979-September 1980 period. In response to the disastrous 1979 harvest (179 MMT) and the embargo they drew down grain stocks heavily in 1979/80. At the same time meat, butter and milk production fell. Meat imports rose to record levels but the increase offset only a quarter of the loss of production. The grain embargo's effectiveness passed its peak in the fall, with Soviet imports rising significantly in the last quarter of 1980 as a result of large Argentine shipments, faltering Canadian cooperation, loopholes in the EC agricultural trade system and higher-than-anticipated exports by minor suppliers.

The partial grain embargo imposes three costs on the USSR. First, Soviet port capacity is reduced by about 2 MMT because grain imports now arrive on numerous small ships, thus increasing port congestion and turn-around time. In addition, the embargo forces the USSR to pay premium prices for grain imports and to make do with a lower-than-optimum proportion of corn. If the embargo is maintained, we estimate that the Soviets, who already have firm commitments for about 30 MMT of grain, will be able to import a total of 34 MMT in the 1980/81 marketing year. If the embargo is lifted, imports could rise to 36 MMT, reflecting higher purchases from the US and improved import efficiencies.

Whether the embargo is lifted or maintained the Soviet Union will continue to face serious grain shortages, because of the short 1980 grain crop and port constraints. The 1980 crop of 189 MMT, while somewhat better than the disastrous 1979 crop, falls roughly 45 MMT short of the planned target. Since port capacity is limited to about 36-38 MMT even under ideal conditions, the Soviets will still be unable both to meet the demands of the livestock sector for feed and to replenish their depleted grain stocks. The livestock sector will continue to feel the pinch of poor harvests and stock drawdowns through 1981/82 and beyond.

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IMPACT ON US AGRICULTURE

Lifting the partial grains embargo is not likely to have a major near-term impact on US agriculture as a whole for the remainder of the 1980/81 year, but the USSR would likely purchase oilseeds and meat from the US and additional corn if permitted under the grains agreement. The Soviets are unlikely, however, to purchase greater quantities of wheat unless persuaded to do so. For next year lifting the embargo might have more overall impact, depending on the size of the US and Soviet crops and the level of Soviet imports from the US. The impact on US agriculture is not measurable simply as the increase in exports to the Soviet market, because this increase would be partially offset by decreases in exports to other markets.

Under the assumption that the Soviet Union would once more purchase large quantities (15-20 MMT) of US grain in the absence of the embargo, our carryover stock levels would be slightly lower than now anticipated, and prices would be slightly higher. Farm income and agricultural export earnings would increase.

The probable increase in feedgrain costs resulting from lifting the embargo would not be large enough to cause a reduction in total US livestock output. Exports of pork and poultry to the USSR could occur in the absence of the embargo, which would generate slight upward pressure on meat prices and demand.

In the long term continued trade sanctions could force the Soviets to re-examine their livestock production goals and move toward a policy of greater self-sufficiency. The impact of such a decision on the world market and the United States would be considerable. It would lead to substantially lower world market prices and either a build-up of stocks in the major exporting

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countries or some reversion to farm production control programs.. If the Soviets continue to import large volumes of grain, the United States would benefit from higher foreign exchange earnings. US farmers would benefit from higher prices and farm income.

STATUS AND PROSPECTS OF COOPERATION

The cooperation of the other grain-exporting countries was never as fully effective as we would have liked. Argentina publicly rejected cooperation, exceeded its confidential assurances to the US about a limit on grain sales and concluded in July a five-year agreement with the USSR to supply a minimum 4.5 MMT of coarse grains and soybeans annually. Canada, Australia and the EC promised in January not to replace the grain denied by the US but later committed themselves only to unspecific normal or current levels. Even this degree of cooperation from the other exporters has been difficult to retain because of heavy pressure from their domestic producers. The EC did institute meaningful controls on exports of subsidized agricultural products to the USSR but has no control over unsubsidized products such as wheat flour or soybean meal, processed from imported grain and beans, which have been flowing to the USSR in significant quantities. Canada's November decision to sell record amounts of grains to the USSR this year dealt the embargo a sharp blow, but Australia and the EC decided not to change policy pending review by the new Administration. The US was not successful in obtaining the cooperation of the other major soybean exporters and the major meat exporters.

Argentina and Canada will probably continue to sell as much grain as possible to the USSR in the new marketing year beginning July 1981. The future cooperation of Australia and the EC on post-Afghanistan sanctions will depend largely on the US position, although producer pressures on those governments will intensify if the embargo is maintained.

If the Soviets intervene in Poland, it might be possible to persuade the other exporters, including perhaps Argentina, to join in tightened sanctions against the USSR. Because export commitments for the remainder of the 1980/81 marketing year are already firm, the only kind of post-Poland embargo which would have an immediate effect would be a total halt of grain shipments, not merely a moratorium on further sales.

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Irrespective of government actions we should bear in mind that Soviet intervention could evoke strong reactions from Western labor unions including a boycott of Soviet ships and cargoes.

The other exporters clearly expect to be consulted before the US announces its decision on the future of the embargo. The fact that the embargo was imposed unilaterally by the US with minimal prior consultations (none with Argentina) created difficulties with the other exporters and may have contributed to their lack of enthusiasm for the existing embargo. Lifting the embargo would reduce the prospects for future cooperation on trade sanctions, e.g. in the event of a Polish invasion.

FUTURE OF THE US-USSR LONG TERM AGREEMENT (LTA)

The LTA, which expires September 30, was negotiated in 1975 to avert "great grain robberies" like those of the early seventies. While guaranteeing minimum annual sales levels, it allows the USG to forestall large unexpected Soviet purchases without instituting export controls. The USSR is committed to buy at least 6 MMT of US wheat and corn annually, while the US is committed to allow sales of 8 MMT without consultations. Under the embargo the export of 8 MMT was thus permitted in both the 1979/80 and 1980/81 agreement years. The Soviets have purchased the entire amount for this year and shipments will be completed by April.

In view of massive Soviet import needs and capacity to disrupt US domestic markets, it is undesirable to return to the pre-agreement situation of unrestricted Soviet access to US grain. The USSR values access to the US market and understands that the US is likely to insist on a framework to govern this trade. The question for us is whether to control this trade bilaterally by agreement or through unilateral US actions. If it is decided to allow the agreement to lapse, the USG could only regulate grain trade with the USSR by retaining current export controls and requirements for export licenses and for reports on export transactions from the grain companies. The USG would have to decide from year to year whether the level of sales should be restrictive or not. The imposition of controls was justified to Congress on foreign policy grounds (subject to override) and national security grounds (not subject to override).

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If the US decides to negotiate a renewal of the agreement, the Soviets would probably press for language exempting them from a future embargo and for a higher floor for purchases without consultations with the US (at least 9 MMT to match the level in the US-China agreement). Particularly if lifting the embargo is conditioned on renegotiating the LTA, the Soviets would ultimately come to an agreement. The Soviets have been discussing with US traders return to a more normal grain trading relationship. A recent intelligence report hints at Soviet willingness to negotiate a new LTA on more favorable terms, e.g. higher minimum purchases, a larger share of wheat, and inclusion of soybeans and meal.

An alternative to renegotiating would be to propose to the Soviets the extension of the agreement for one year as provided under Article IX. If accepted by the Soviets, this action would leave in place a framework to regulate our grain trade, while postponing a decision on the longer-term future of this trade.

INTERRELATIONSHIPS OF SANCTIONS POLICY

In the current international situation the act of removing the partial grains embargo on the USSR could have wide-ranging implications for our policies in Southwest Asia, our ability to deter Soviet intervention in Poland, and our leadership role within the Western alliance.

Lifting the embargo would spell the end of the sanctions imposed in response to the invasion of Afghanistan and could be interpreted as tacit acceptance of the situation there. A US decision to lift the embargo without a significant Soviet concession on Afghanistan or without the introduction of alternative measures to shore up resistance to Soviet expansion in Southwest Asia, could also be interpreted as a lessening of US interest in issues of importance to the Islamic states, which have condemned the Soviet invasion and called for the withdrawal of Soviet troops. A subsequent vigorous response to a Soviet invasion of Poland would exacerbate sentiment that the US is unconcerned about non-aligned and Muslim people. A US policy of increased support for Pakistan and other key states in the region would be undermined by a decision to lift the grain embargo since this could raise new doubts among already skeptical regional leaders concerning US willingness to make sacrifices to deter Soviet moves in the region.

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The decision on the future of the embargo must take into account the tense and uncertain situation in Poland. In the event of Soviet intervention, the US would want to respond vigorously. Terminating the embargo could unravel the fragile allied consensus on the need for some kind of economic sanctions. An embargo on grain sales would be the major contribution the US could make to such a program. Unless we are prepared to bear this burden, the allies, who are reluctant in any case to sacrifice their trade with the USSR, would seize upon a US decision to lift the embargo as a reason to avoid further contingency planning on Poland. The end of such planning might well become public, thus indicating to the Soviets that the price paid for intervention would be greatly decreased. Poland aside, dropping the grains embargo could hamper any efforts by the new Administration to tighten Western technology transfer and industrial trade with the USSR.

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